GCC Board Directors Institute

HEIDRICK & STRUGGLES

Board Effectiveness Review 2023

Determining board effectiveness across the GCC

In collaboration with Heidrick & Struggles

November 2023

Contents

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Heidrick & Struggles is a premier provider of global board, leadership and organisational advisory insights, serving the senior-level talent and consulting needs of the world's top organisations.

In our role as trusted advisors, we partner with our clients to develop future-ready boards, leaders and organisations, bringing together our services and offerings in executive search, board advisory, diversity and inclusion, leadership assessment and development, organisation and team acceleration and culture shaping.

Heidrick & Struggles pioneered the profession of executive search more than 70 years ago. Today, the firm provides integrated board, organisation, talent and human capital solutions to help our clients change the world, one leadership team at a time.

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The Financial Academy
BDI
This is to certify that
Ayad AlAmri
has been awarded the
CERTIFICATE IN BOARD DIRECTORSHIP
on
13 June 2022
by the GCC BDI Examination & Awards Committee
and the Financial Academy

About the GCC BDI Board Directors Institute

GCC Board Directors Institute (GCC BDI) is a not-for-profit organisation that guides board directors of organisations, from family-owned businesses to listed companies, to acquire the know-how and tools to reach and sustain effective governance. GCC BDI is supported by eight leading regional corporations and professional services firms who serve as our strategic partners, First Abu Dhabi Bank, National Bank of Bahrain, SABIC, Saudi Aramco, Allen & Overy, Heidrick & Struggles, McKinsey & Company and PwC. We are also supported by a number of Corporate Affiliates – Elm, Nesma & Partners, stc group, Saudi Investment Bank, Tasnee and Vision Invest, as well as the regional regulatory authorities, including, amongst others, the Capital Market Authority of the Kingdom of Saudi Arabia and the Saudi Central Bank (SAMA), the Securities and Commodities Authority – UAE, the Capital Market Authority of Kuwait, the Central Bank of Bahrain and the Capital Market Authority, Sultanate of Oman.

GCC BDI's mission is to make a positive impact on the economies and societies of the region, by promoting professional directorship and raising the level of board effectiveness.

Our main objectives are:

- To enhance GCC board member capabilities and further their understanding of best practice board governance;
- To create a regional network of board members;
- To disseminate high quality corporate governance knowledge; and
- To put corporate governance higher on the region's agenda.

Over the last 16 years, GCC BDI has grown to become the leading organisation in the region for board directors. We have delivered over 600 programmes and forums to top-tier companies in the Gulf and now comprise over 3,500 members, each with extensive knowledge and experience of operating at the most senior levels of business in the GCC. Our member network is probably the most influential group of senior board directors and business leaders in the Gulf. Our members are our greatest ambassadors.

We are highly regarded among the international community and are the only director institute in the GCC to have been admitted as a member of the prestigious Global Network of Director Institutes. This is a network of 25 global institutes, which includes the Institute of Directors (IoD) in the United Kingdom, the Australian Institute of Company Directors (AICD), Hong Kong Institute of Directors (HKIoD), Institute of Corporate Directors (ICD) in Canada, Institute of Directors in New Zealand (IoDNZ), Singapore Institute of Directors, Institute of Directors in Southern Africa (IoDSA), and the National Association of Corporate Directors (NACD) in the United States, among others.

GCC BDI has a successful and proven track record of working with the top companies in the GCC. We work with a large and talented pool of high-calibre international, regional and local experts, providing a mix of best international practice and actual board experience, combined with specialist knowledge and experience of corporate governance and director's issues in the Gulf. We would like to take this opportunity to thank all our founders, strategic partners, and corporate affiliates for their collective collaboration and support in nurturing GCC BDI over the past 16 years and helping us to work towards achieving our mission.

GCC BDI has a unique combination of local experience and understanding, strong corporate governance and regulatory knowledge, practical director expertise, and tried and tested programmes. We look forward to continuing our mission to make a positive impact on the economies and societies of the region.

Foreword by Mohammed Al Shroogi

For the 8th biennial year, the GCC BDI has surveyed and interviewed numerous board directors and governance professionals from the Gulf to identify governance trends and to highlight views on board effectiveness and challenges.

As boards emerge from the Covid-19 pandemic era, they do so in a continued time of global uncertainty and disruption. At the same time, boards in the GCC are going through a period of intense transformation as they adopt and adapt to global best practice and meeting new regulatory and governance requirements while rising to increasing stakeholder expectations. There is little doubt that boards in the region are approaching this new period of professionalisation with strong commitment to ensure that they are ready to guide their companies through the complexity, disruption and uncertainty ahead.

The rising importance of subjects such as environmental, social and corporate governance (ESG), sustainability, climate change and stakeholder expectations are affecting boards globally with investors demanding enhanced sustainability and corporate social responsibility assurances. It is no surprise that these issues are seeing a steady rise in prominence on board agendas in the Gulf and boards must take action to improve their overall effectiveness.

The GCC BDI Board Effectiveness Review results offer insights for boards in the GCC to continue their journey of continuous improvement, year on year, towards greater performance.

I am proud to present the 2023 GCC BDI Board Effectiveness Review and wish to extend my gratitude to Heidrick & Struggles, who are one of our esteemed founders and strategic partners, for their support in preparing this report. I also wish to thank all the business leaders who generously volunteered us their time and support in taking the survey and offering their valuable insights.

Mohammed Al Shroogi
Chairman
GCC Board Directors Institute

Introduction by Jane Valls

I am pleased to present this 8th edition of the GCC BDI Board Effectiveness Review. The challenges of the last decade, including the recovery from the financial crisis and then the Covid 19 pandemic and supply chain shortages, and now, the spectre of rising inflation and a global recession, have all led to major changes in the business world, not just in the Gulf region, but around the globe. Digital disruption, AI and climate change are also challenging our usual ways of doing business.

In these times of continual change and evolution, research is important because it reveals insights into how boards are dealing with these challenges. In this 8th edition of the GCC BDI Board Effectiveness Review, board directors and senior business leaders have given us their time and insights to paint a clear picture of how they are coping and evolving, and how they see the road ahead.

The disruption and challenges of the last few years have forced organisations of all sizes and industries to make rapid change. The Covid-19 crisis has accelerated operational changes and, in some ways, has created a stronger collaboration between directors and management. Such robust collaboration is key to a board's success and should be maintained.

The disruption has also forced boards to implement new structures and processes. They have become more flexible in their approach and their agenda setting, and more focused on strategy and corporate resilience. Boards should continue to take a more flexible approach, especially to agenda setting, to stay on top of emerging issues and new risks, and implement strategic alternatives as the need arises.

One of the most prevalent changes the pandemic brought to corporate life was the change of board meetings from physical to virtual. The multiple benefits of virtual board meetings make it clear that they are here to stay but in-person meetings can be more productive and better focused. The pros and cons of both styles of meetings has paved the way for the rise of a hybrid style of board meeting, with a mix of in-person and virtual meetings which seems to have become the new normal. Boards therefore need to make more effort to socialise when the opportunity arises.

Another key challenge which the pandemic created for organisations is related to talent management and as a result boards are having to play a major role to secure the best talent in a highly disrupted world. Creating a comprehensive talent strategy to support the business strategy is something that boards will need to prioritise.

We see that boards in the Gulf are also grappling now with the challenges of sustainability and ESG, as well as new technology and the need for greater diversity, while adopting the higher standards of governance that are continually being raised by the regulators in the region. We see that boards are under greater pressure from their stakeholders to deliver value, and with increasing competition, they are investing more time in strategy and forward-thinking as they have to manage greater risk and uncertainty.

Effective governance and leadership are therefore more important than ever. Many boards, nevertheless, remain unconvinced of the need to evaluate their own performance, and their board composition and skill sets, but board evaluation and diversity are keys to greater success. In order to reflect the organisations, the customers and the societies which they serve, boards must start to reconsider their current and future composition. A strong, diverse group of board directors is essential to weathering future storms and ensuring the longevity of companies.

Continuous professional development is therefore also a key consideration for board directors today. GCC BDI has been at the helm of developing effective board directors for the last 16 years. We have adapted to the differing needs of regional boards, as well as introduced globally relevant discussions to the region on new socio-economic trends, through our international network. As time passes and the needs of regional boards change, we will continue to be at the forefront of director development, corporate governance improvements, robust regulatory guidance and board effectiveness.

Through this review, we have engaged our diverse pool of members to solicit their opinions on where they want to go next – and we will be by their side. It is therefore our honour to present this report and the immensely valuable insights of our members. We are grateful for their time and support, and we hope to continue offering the latest insights on best practices in corporate governance and board direction to all our valued stakeholders.


BDI
GCC Board Directors Institute
The Red Sea
Development
AMAALA

Summary and Recommendations

Companies in the Gulf region are facing disruption on multiple fronts, with profound implications for organisations and the boards that govern them.

Boards in the region are also feeling the impact of rising stakeholder expectations. This trend has been affecting boards globally for a number of years and 45% of respondents in this survey believe it will have the most significant impact on their company in the next three years. This is 17 percentage points higher than in the 2021 survey. It is no surprise that 41% of respondents indicated that stakeholder expectations require the most board attention when overseeing strategy — up 7 percentage points from 2021.

Stakeholder expectations relating to sustainability and ESG-related issues are seeing a slow but steady rise in prominence on board agendas. About 24% of respondents said these topics are often discussed at board meetings — almost 3 percentage points more than in the previous survey. There has been a drop of more than 10 percentage points in the number of respondents saying their boards never discuss these topics.

There is growing acceptance at board level that ESG and sustainability are not only an area of risk or concern, but also a source of value. A significant majority of respondents (89%) either strongly agreed or agreed that actively working toward sustainability will help their boards create long-term value for their organisation.

Technology disruptions are another rising concern in the region, as they are for boards around the world. About 41% of respondents said technology disruptions, AI, and the increasing use of other advanced technologies require the most board attention when overseeing strategy.

Staying abreast of regulatory changes is a third important aspect raised in this year's survey. More than half of respondents believed that rules and regulations on corporate governance in their country have mostly kept pace with global regulatory change. About 44% felt the regulatory framework of the country or countries they operate in strikes the right balance between controls and autonomy. Fewer than one-fifth (18%) of respondents felt the demands imposed on companies by legislators or regulators were excessive.

All in all, it is abundantly clear that the demands and expectations of boards are increasing. Boards have come out of the Covid-19 pandemic era and into a continued time of disruption, with a heightened awareness of their role in shaping strategy and managing risk.

Boards in the Gulf can look to how boards in other regions are responding to these pressures and adapt these approaches to their local context. Among the actions boards can take to improve their overall effectiveness are: taking a long-term perspective on how sustainability and other issues will impact their business, sharpening strategic oversight by examining and re-balancing the overall makeup of the board; and improving governance to drive performance, increase stakeholder trust, and meet changing regulatory requirements.[1]

This report at a glance: 10 takeaways

Our 2023 Board Effectiveness Review builds on our previous surveys to present a picture of how boards in the region are aligning with international best practice and evolving over time to meet the challenges and opportunities defined by an era of disruption. The top insights from directors are:

1. **ESG and sustainability are climbing up the board agenda.** The frequency with which sustainability or ESG are discussed at board meetings continues to rise. Only 10% of respondents said they never discuss these issues — down from 20% in the previous survey. As ESG and sustainability discussions become more commonplace, more respondents are finding that setting and reviewing ESG targets and reporting against sustainability and ESG are a challenge.

2. **Stakeholder and investor demands are increasing.** Reflecting the wider global trend of rising stakeholder expectations and deeper company scrutiny, many respondents expect external demands and stakeholder requirements to shape their company over the next three years.

3. **Lessons from the Covid-19 crisis are continuing to shape boards today.** Directors underscore the lasting effects the pandemic has had on companies and the boards that govern them. Only 57% of

[1] https://www.heidrick.com/en/insights/boards-governance/boards-in-saudi-arabia-upping-their-game-for-growth.

Summary and Recommendations continued

respondents felt their board had the right processes and skills in place to manage the crisis, while 15% admitted they did not manage it well, but have learnt from the experience and put new procedures in place. Directors expect the long-term impact of the crisis to continue to affect a number of areas of governance, mainly: incorporating a broader set of risks into scenario planning; ensuring the ongoing health and safety of employees; strategic oversight; and oversight of risk management.

4. **Boards are clearer about their strategic oversight role.** There is broad consensus on the role of the board versus the role of the management team, with 92% saying the board directs the policy and strategy of the company, while management delivers the operational plans. However, while boards have clarity on their purpose and the role they should play in strategy setting, there remains a discrepancy between theory and practice: responses show that boards still step into the management domain for a variety of reasons and this could be improved through better alignment with the executive team and improved meeting dynamics.

5. **Independent directors are more commonplace.** More than two-thirds of respondents agreed there is an increased presence of independent directors on boards. This is generally viewed as a positive move to strengthen board effectiveness. More than half of those surveyed believed the role of a lead independent director should be introduced in all companies in the Gulf, while 30% said this should happen in public companies specifically.

6. **A diverse mix of skills and experience is increasingly valued.** Boards are adopting a wide range of strategies to promote board diversity — from seeking out directors with different industry experience and nationalities to appointing more female directors and adopting diversity policies or committees. Two-thirds of respondents believed diversity can also be promoted by improving existing board members' knowledge and capabilities. While women are increasingly welcomed on boards in the region, nearly half of respondents (47%) admitted there are still no female directors on the boards they sit on. Several board members highlighted a goal of bringing more young talent onto boards to increase diversity and different perspectives.

7. **Succession planning continues to be a challenge.** Nearly 70% of respondents said they have no formal succession planning in place for any board positions. This is a significant risk given the competition for board talent in the region. A lack of experienced board talent is leading to an "over boarding" problem in some countries, with many directors sitting on multiple boards.

8. **Board governance and dynamics are seen as a key influence on performance.** More than three-quarters of respondents cited better awareness of board roles and responsibilities as an area where boards have made progress in the past three years. However, the trend towards more robust policies to address conflicts of interest could be losing momentum, with only 35% saying they are seeing these in place — a drop of 6 percentage points from the previous report.

9. **Regulatory oversight and requirements are catching up to global norms.** About half of the directors surveyed believed their country's rules and regulations on corporate governance are mostly keeping pace with global regulatory change — and about 44% say the local regulatory framework strikes the right balance between control and autonomy when it comes to disclosure and governance. One-fifth believed that oversight of board governance needs further strengthening.

10. **External forces are improving board effectiveness.** External regulation and stakeholder pressures are continuing to drive the professionalism of boards in the region. More than two-thirds (67%) said changes in company law have positively impacted board effectiveness; 59% attributed the positive changes to the updated listing rules and securities law; 43% cited international regulatory trends; and 42% said investor interest and pressure is changing board performance for the better.

To continue their journey toward greater professionalisation and positive impact, we recommend the following practices for boards in the GCC:

- **Embed ESG and sustainability through better tracking and reporting.** The survey data revealed that the biggest challenges boards now face regarding ESG relate to the practicalities of building an ESG assessment framework, encouraging the adoption of ESG and sustainability-focused targets and setting, reporting, and reviewing those targets. With granular measurement forming the foundation of meaningful, trackable progress, boards in the region need to push for the metrics required to assess ESG and sustainability-related performance.

- **Take a longer-term perspective on strategy.** Boards increasingly recognise their core role in providing oversight for strategy development. Board agendas need to be reshaped to be predominantly forward-looking, taking a more long-term view instead of simply assessing past performance or focusing on the next few quarters. This includes responding to new stakeholder expectations in areas such as ESG, where companies need to plan for tightening regulation and as well as a more resource-scarce and climate-challenged world.

- **Ensure a well-balanced board for today and tomorrow.** Well-balanced boards have the right mix of ages, nationalities, skills and experience from diverse functional and industry backgrounds. They are also wary of "over boarding" to make sure directors can devote the necessary time to their role. To ensure fit-for-purpose board composition, board nomination and selection could be more deliberate, focusing on the skills, expertise and unique value that each member brings. Succession planning is another important component of driving and sustaining performance over time, providing a powerful frame for clarifying the growing responsibilities of boards — and the issues of most importance to the organisation.

- **Drive board performance through independent directors and board processes.** The survey data shows a clear belief that corporate governance can be improved, and value added, through the efficient use of independent directors — and the region is seeing more of them, with 71% of respondents indicating an increased presence of independent directors. Along with providing the right expertise and setting up relevant committees and processes aligned to shifting organisational needs, independent board advisors are also seen as a way to promote diversity, in all its forms.

- **Ensure you have a professional board secretary.** The role of the board secretary is key to board effectiveness and good governance and listed companies should have an independent professionally qualified board secretary, appointed by, and reporting to, the board. The board secretary is not only secretary to the main board but also secretary to all the board committees, managing the flow of information, providing a critical bridge between the board and management and ensuring the board the committees operate effectively, efficiently, and within an appropriate governance framework.

- **Evaluate and assess board performance regularly.** Regular evaluation, including through independent board effectiveness reviews, is critical to improving how boards operate, and what they bring to their organisations. Best practice indicates that independent reviews should be carried out every three years, with internal reviews in between to maintain a continual focus on performance improvement.

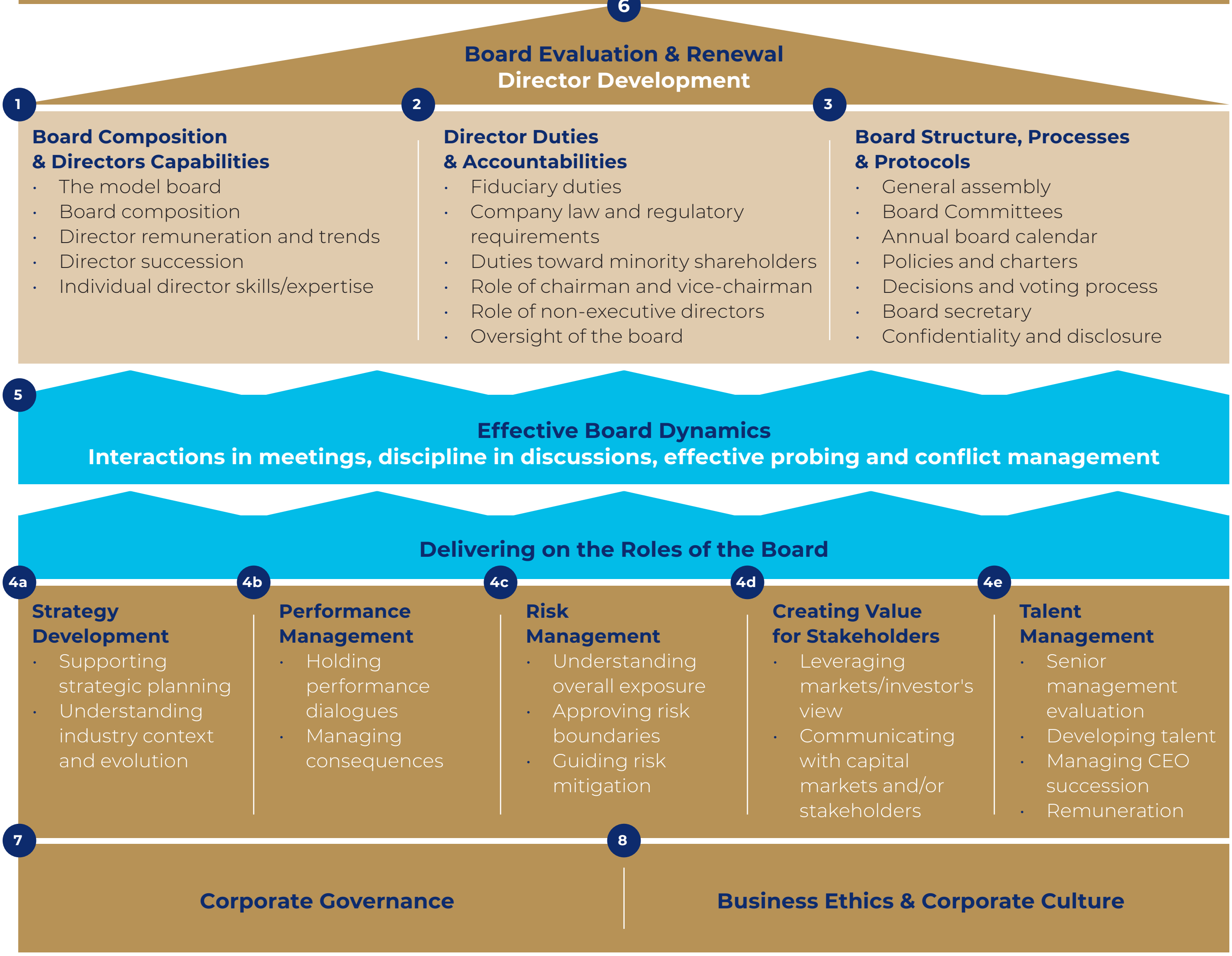
About the Report

This is the 8th report on board effectiveness in the GCC produced by the GCC BDI over the last 16 years. The report is based on a survey designed by GCC BDI and Heidrick & Struggles and based on the GCC BDI Framework for Board Effectiveness. This framework has eight key elements, namely:

1) Board Composition & Director Capabilities
2) Director Duties & Responsibilities
3) Board Structure, Processes & Protocols
4) Delivering on the Roles of the Board
5) Effective Board Dynamics
6) Board Evaluation & Renewal
7) Corporate Governance
8) Business Ethics & Corporate Culture

The survey and the report examine all these elements. This GCC BDI proprietary framework enables the evaluation of board effectiveness in the GCC in a structured manner, while allowing for flexibility to highlight emerging trends emanating from GCC BDI's work in the region.

Figure 1. GCC BDI Framework for Board Effectiveness



About the Report continued

This year's survey comprised 108 questions, which were disseminated to GCC BDI members and board directors to seek their views on board effectiveness and challenges.

Responses from 155 members were collected, reflecting a diversity of board member and executive views based on their role, company type, industry and country. In addition, open-ended and confidential interviews were conducted with 15 senior GCC board members, executives and other experts, to discuss and probe specific issues highlighted as being of concern to board members.

In terms of the demographics of survey respondents, Saudi Arabian respondents made up most of these (52%), followed by Emirati respondents (7%) and Bahraini respondents (6%). The remaining 35% comprised other nationalities.

The majority (35%) had 10 years or more of board experience, while 22% had one to three years of experience, 18% had between four and six years of experience, and 9% had between six and nine years of experience.

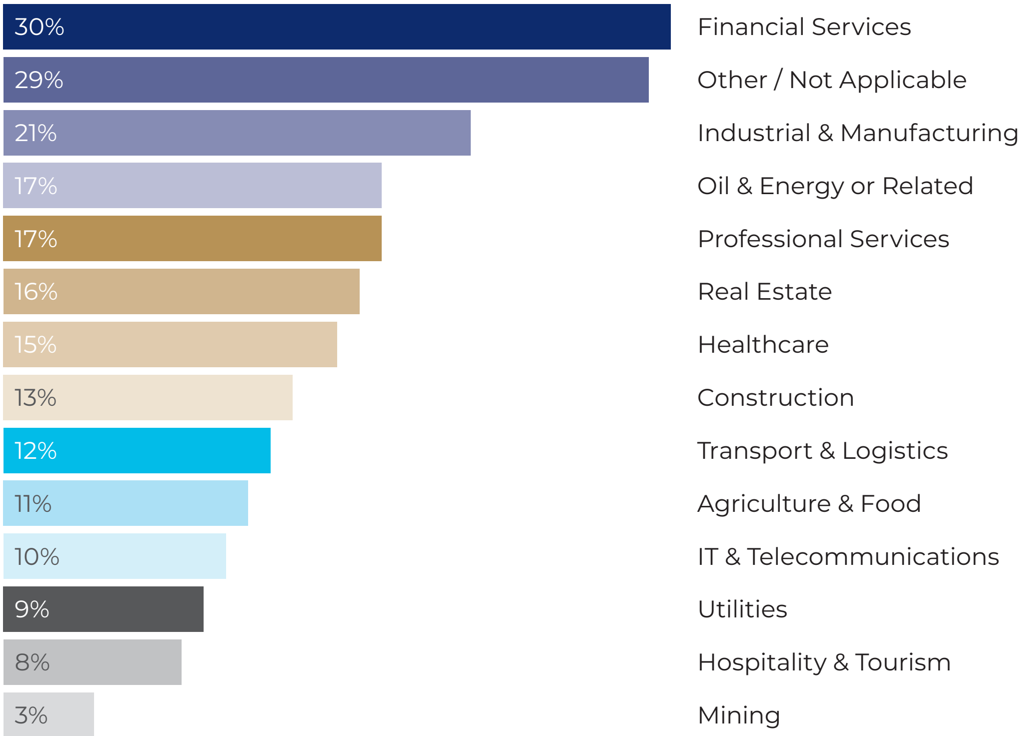
Most respondents (61%) sat on boards of entities domiciled in Saudi Arabia, followed by the United Arab Emirates (23%) and Bahrain (10%). About 57% of the respondents held board positions in privately-owned companies, 28% in listed companies, and 26% sat on the boards of non-listed family-owned businesses. One in ten sat on the boards of state-owned entities, and a quarter on the boards of not-for-profit organisations. (Respondents marked the positions they have held on multiple boards.)

From a gender point of view, 79% of the survey's respondents were men and 21% were women.

The survey saw respondents from a wide range of industry sectors: 30% were from the financial sector, 21% from industrial and manufacturing, 17% each from oil and gas and professional services, and 16% from real estate. The following graph demonstrates the sectorial breakdown of the survey's respondents.

The companies where you are a board member operate in the following sectors (multiple responses allowed)

Figure 2



Reflecting the rising importance of ESG and sustainability across the region

In addition to perennial board effectiveness topics, the special theme for this year's report is ESG and sustainability — inspired, in part, by the convening of the 2023 United Nations Climate Change Conference (COP28) in Dubai from 30 November to 12 December 2023.

Board members were surveyed on a series of questions focusing on reporting frameworks and ownership of ESG strategy. These topics were also explored in greater depth in interviews. We found near consensus around the benefits of incorporating ESG and sustainability into company strategy, with 89% of respondents agreeing that actively working toward sustainability will help their boards create long-term value.

Organisations must now turn their attention to the practicalities of building an ESG assessment framework — and herein lies the greatest challenge the survey highlights. For example, only 18% said their board has adopted an ESG reporting framework and 35% have never had a carbon footprint audit conducted for their company and have no plans to do so.

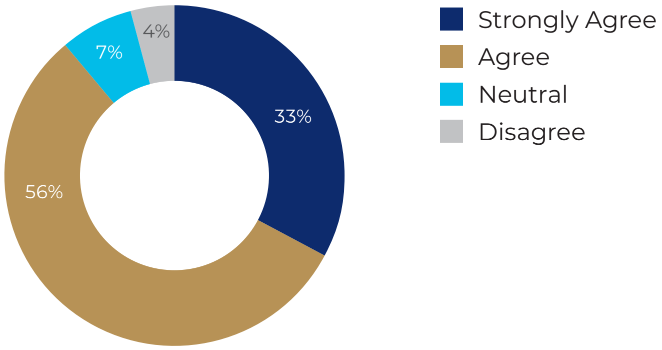
The 2023 GCC Board Effectiveness Review

Embedding ESG strategy and reporting onto board agendas

ESG and sustainability have become a mainstay of board agendas globally, and they are starting to gain greater attention within the Gulf. A large majority of directors (89%) agreed that actively working toward sustainability will help their board create long-term value. This suggests a growing acceptance that these issues are not just good for society and the environment, but good for business too.

Do you agree that actively working toward sustainability will help your board create long-term value?

Figure 3



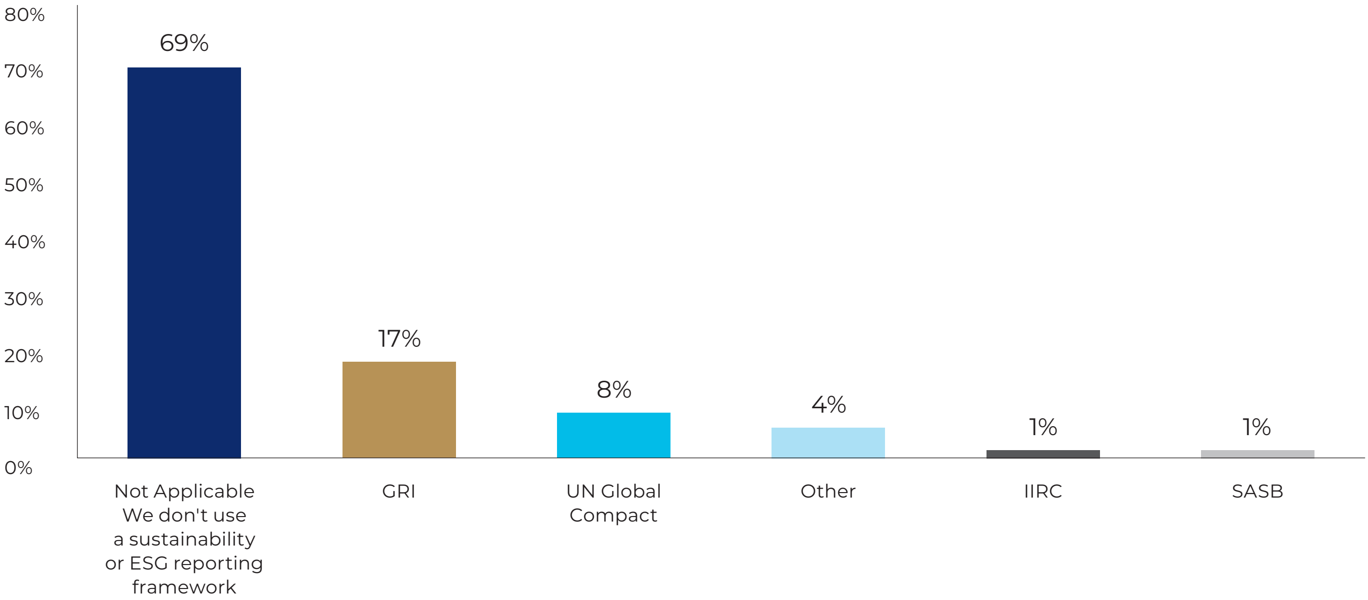
Reflecting this shifting regional perspective, ESG and sustainability are now more than just cursory issues at the boardroom table. More than a fifth of respondents (22%) said the topics are frequently up for discussion — almost 3 percentage points more than in 2021.

There are signs, however, that discussions are yet to be translated into strategy for many organisations. Half of respondents said their board did not have a sustainability and ESG strategy in place, while 53% said they did not have a net-zero strategy as part of the board's mandate.

Attention is also turning to the practicalities of embedding ESG and sustainability within organisations. The biggest challenges to boards in relation to ESG are building an ESG assessment framework, encouraging the adoption of ESG or sustainability-focused targets, and setting and reviewing ESG targets and reporting. Only 18% of respondents indicated that their board has adopted an ESG reporting framework and just 13% said they do sustainability reporting. Nearly 70% of respondents admitted their organisation did not use a sustainability or ESG reporting framework.

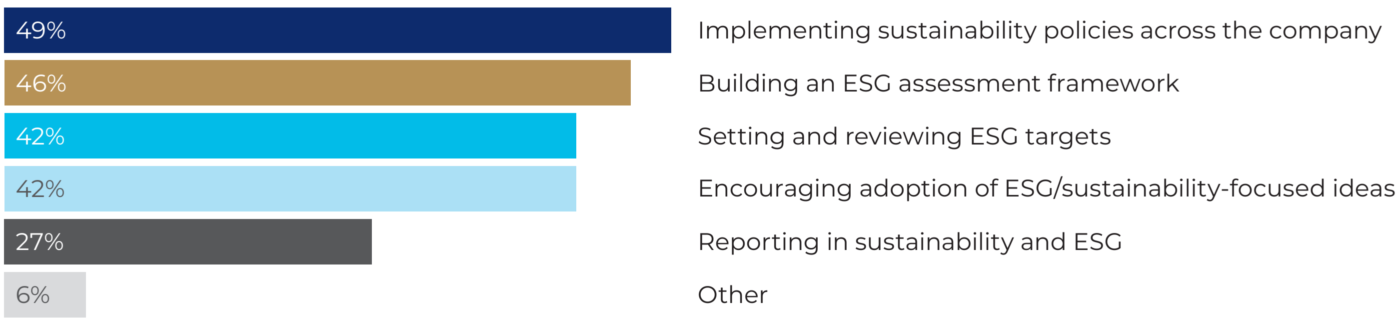
If your organisation uses a sustainability or ESG reporting framework – which one is it?

Figure 4



What do you think are the biggest challenges to boards in relation to ESG? (select all that apply)

Figure 5



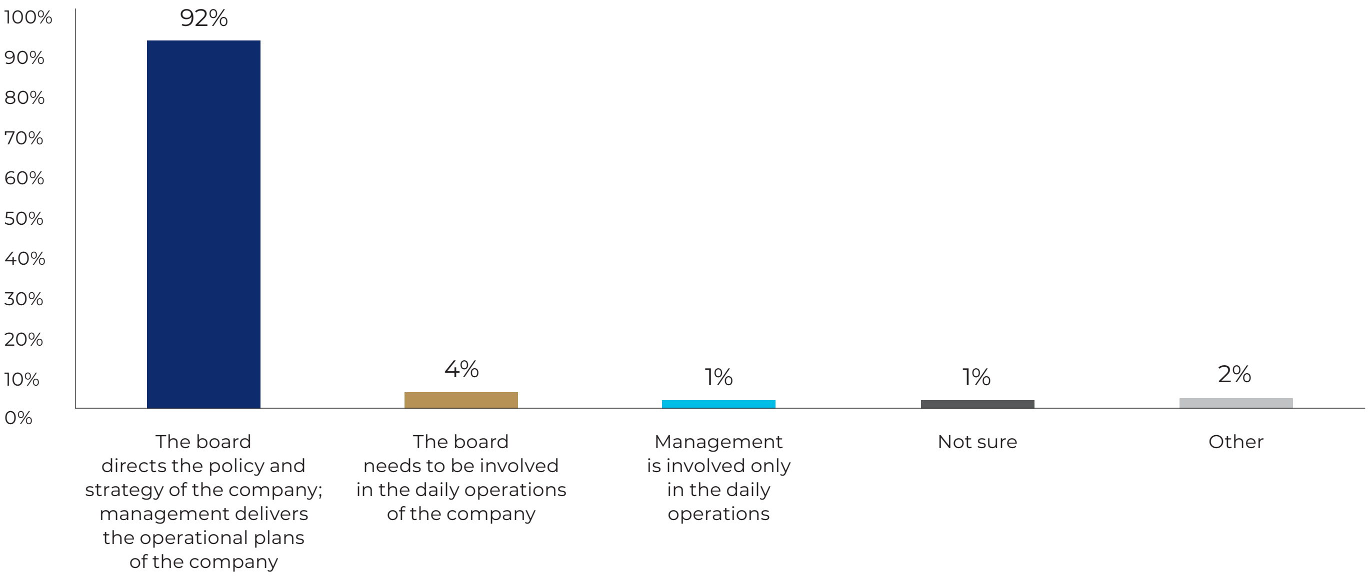
Following the maxim that what gets measured gets done, boards may need to insist on regular tracking and reporting in order to meaningfully drive ESG and sustainability within Gulf-region organisations. About 35% of respondents said their company has never carried out a carbon footprint audit, and have no plans to do so, while 13% said they have never done it, but are looking to institute this audit in future.

Coalescing around strategy

There is broad consensus that the role of the board is to direct or provide oversight on setting company strategy — while the management team is responsible for delivering the strategy and operations.

What are the main differences between the role of the board versus the role of the management team

Figure 6



However, our interviews suggest there may be a misalignment between theory and practice. In reality, board members tend to step into management territory on a regular basis, getting involved in strategy development, operations, and short-term focus on quarterly results. There is significant scope for boards to double down on their true purpose to provide strategic oversight, focusing on evolving threats and opportunities over the longer term, while management takes care of day-to-day operations, and quarter-to-quarter performance. Changes to board composition and dynamics will help boards create lasting change in this area.


Mervyn King
HE PALACE
DOWNTOWN DUBAI

Assembling the most effective board

To provide impactful strategic oversight in an era defined by complexity, disruption and unpredictability, boards must continually strive to work together more effectively in support of company success.

Having the right mix of skills and experience on the board is vital. There is a growing trend toward appointing more independent directors, with more than half of respondents indicating that the role of a lead independent director would enhance board effectiveness in the GCC. The directors we spoke to also highlighted the importance of a strong and capable chairperson in driving board performance.

Do you believe the role of a lead independent director would enhance board effectiveness in the Gulf?

Figure 7

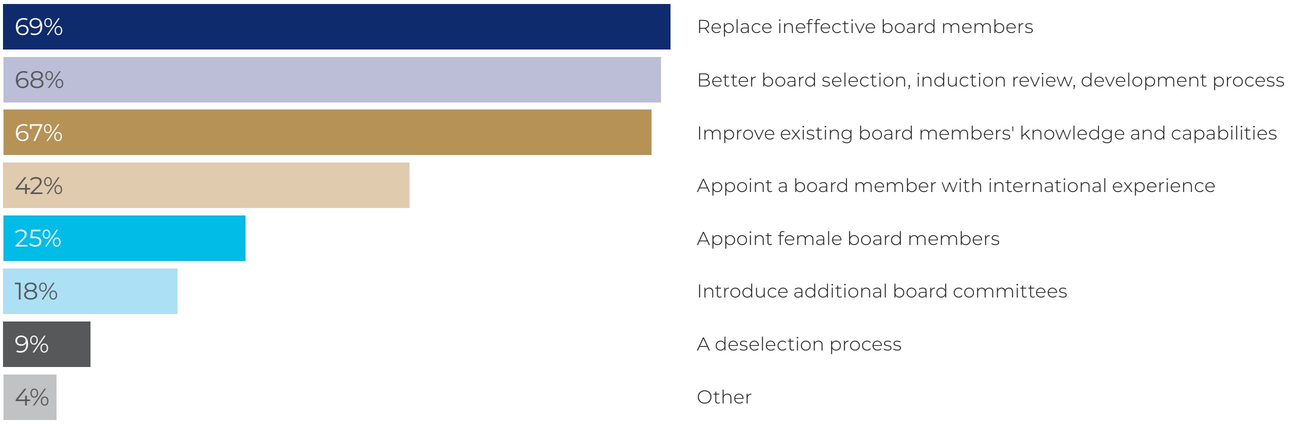
Boards must also ensure directors have enough time to dedicate to their board responsibilities. Globally, 69% of directors say they're spending more time on board responsibilities given the broader remit of boards today.[2] Companies in the Gulf region can take heed of this trend to ensure board members are not over-stretched — especially considering the scarcity of experienced board talent and the tendency of local directors to sit on multiple boards.

The top three responses to the question of "what would have the most positive impact on board composition" were: (1) replacing ineffective board members, (2) better board selection, induction, review and development processes, and (3) improving existing board members' knowledge and capabilities.

[2] https://www.heidrick.com/en/insights/sustainability/the-role-of-the-board-in-the-sustainability-era.

Which of the following would have the most impact on improving the composition of your board? (Please select the top 3)

Figure 8



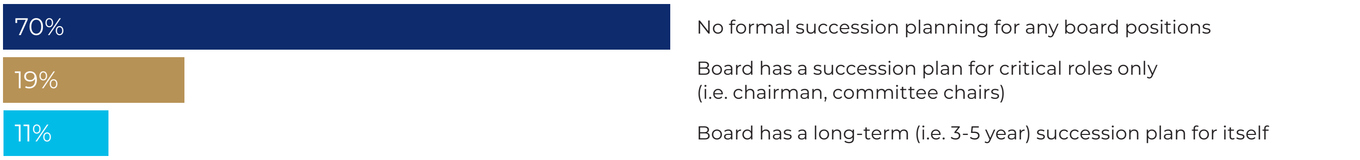
Assembling the most effective board Continued

A clear need for board succession planning

Succession planning at board level is not yet commonplace within the region. Almost 70% of respondents said they had no formal succession planning in place for any board positions. Succession planning should not only include seeking out directors with new or diverse types of expertise but should also take into account findings from board reviews on the effectiveness — or lack thereof — of sitting directors.

Does your board have a succession plan in place?

Figure 9

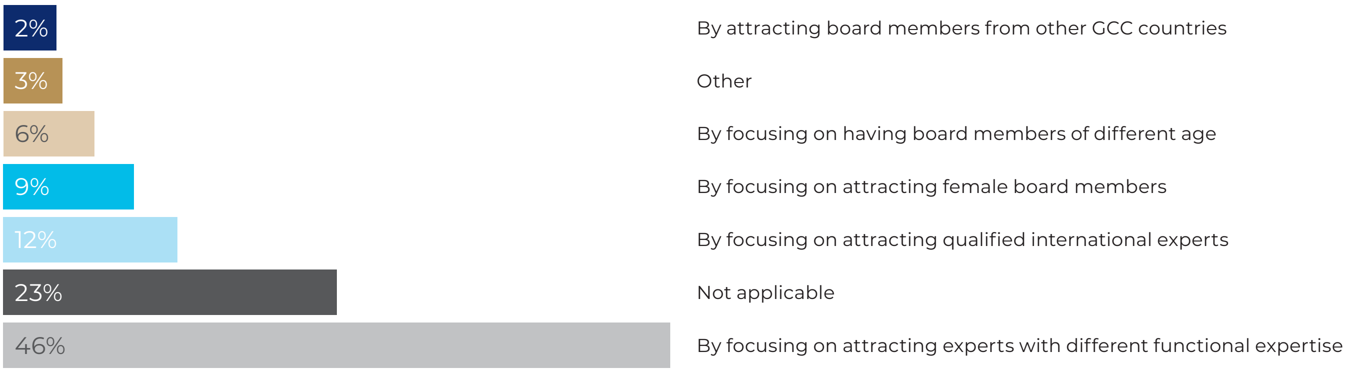


Adding diverse expertise

About 30% of respondents noted that greater age and nationality diversity has been a notable area of improvement for boards in the GCC over the last three years. Just under half (46%) said board diversity is promoted by attracting experts with different functional expertise.

How is board diversity promoted in your company?

Figure 10



To take board performance to the next level, 45% of respondents said they would like to see more strategic thinking expertise on their board, while 37% would like more corporate governance and compliance expertise.

Looking at the main board on which you sit, where would you like to see more expertise? (Please select top 3)

Figure 11

The use of independent board members is increasingly seen as another way to increase diversity — with a 7-percentage point rise in the number of respondents recognising this value versus the 2021 survey. Some of the other measures boards have undertaken to promote diversity include seeking different industry expertise and adopting a diversity policy.

Assembling the most effective board Continued

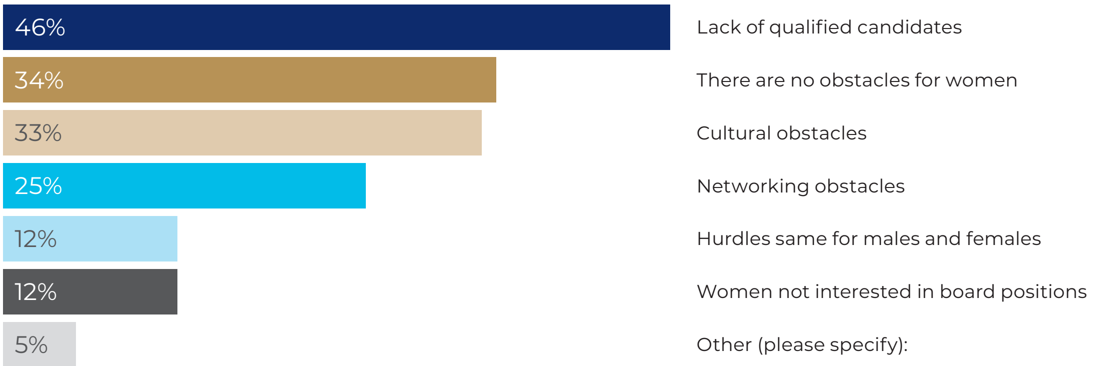
Shifting perceptions on low gender diversity

Almost half (47%) of respondents said there are no female board members on the board(s) they sit on. The perceived obstacles to appointing women to boards include a lack of qualified candidates, with 46% citing this as a reason for continued gender imbalances. This is an increase of 12 percentage points over the previous reporting cycle.

Almost 10% more respondents indicated that women do not seem interested in board positions, while a third of respondents — 5 percentage points fewer than in 2021 — cited cultural obstacles as a barrier. About a quarter of respondents raised networking obstacles as a challenge — 8 percentage points more than in 2021. Despite these wide-ranging barriers, 45% said they do not believe quotas are necessary to improve female participation on boards in the region.

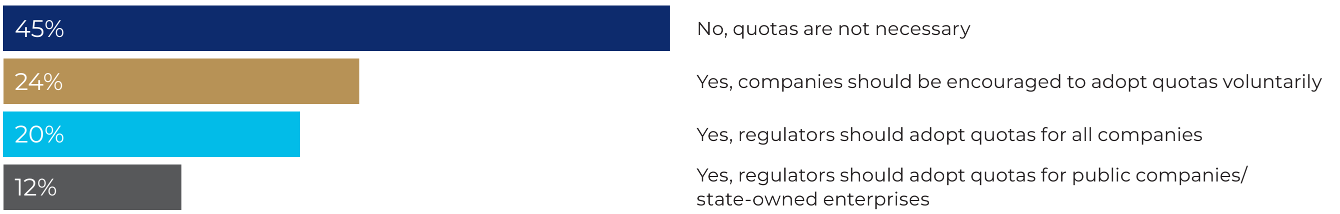
Which of the following obstacles do you see in appointing women to boards (select all that apply):

Figure 12



Do you believe that quotas are necessary to improve women participation on boards in the GCC?

Figure 13

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HONORARY FELLOWSHIP
This is to certify that
H.E Dr. Fahad bin Abdullah Toonsi
is awarded an
HONORARY FELLOWSHIP
of the
GCC BOARD DIRECTORS INSTITUTE
In appreciation of his extensive contribution in
enhancing the standards of corporate governance
and board effectiveness across the GCC region
6 October 2022

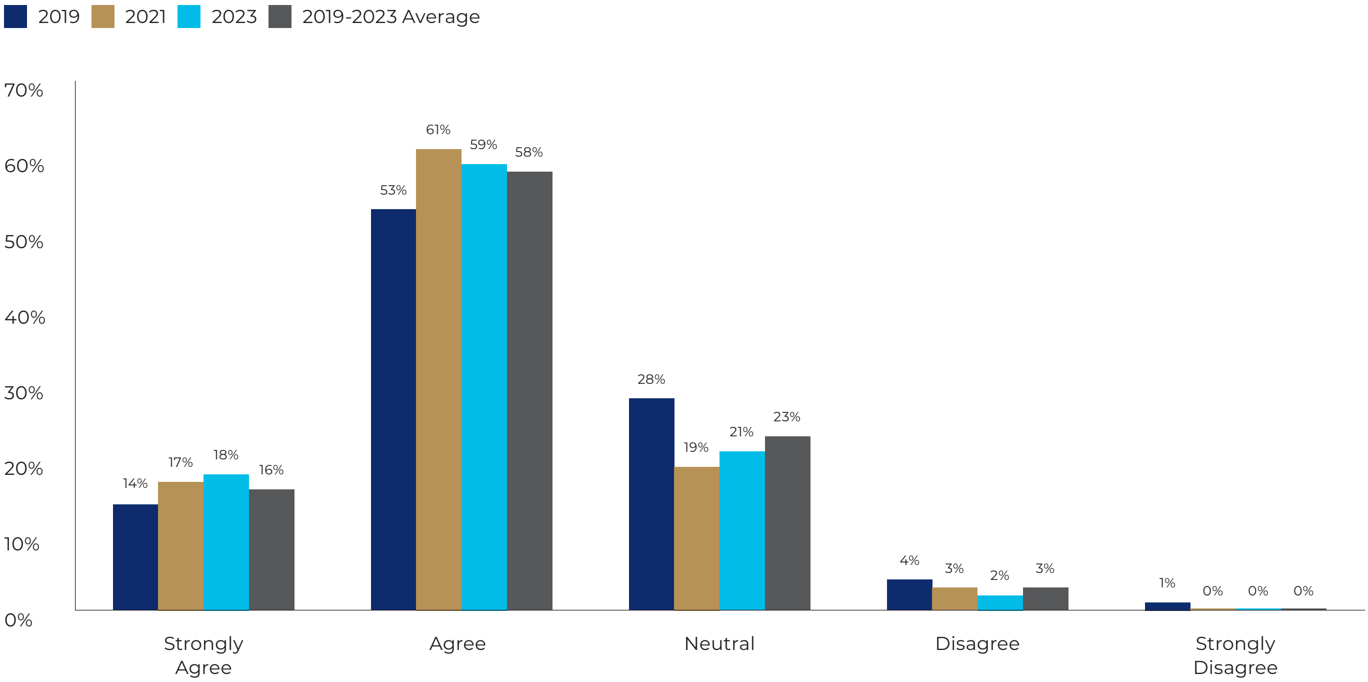
Board effectiveness: What's helping and remaining barriers

Globally, board effectiveness is increasingly seen as a key influencing factor for company performance. Survey respondents are broadly in agreement of the important stewardship role that boards play. Nearly two-thirds (60%) said board effectiveness is about ensuring the long-term health of the company; 57% said it's delivering the purpose of the organisation.

While a sizeable majority (59%) believed that board effectiveness has improved in the GCC in the past three years, this is down minimally from the previous reporting period.

Do you believe board effectiveness has improved in the GCC in the last 3 years? 2019-2023

Figure 14

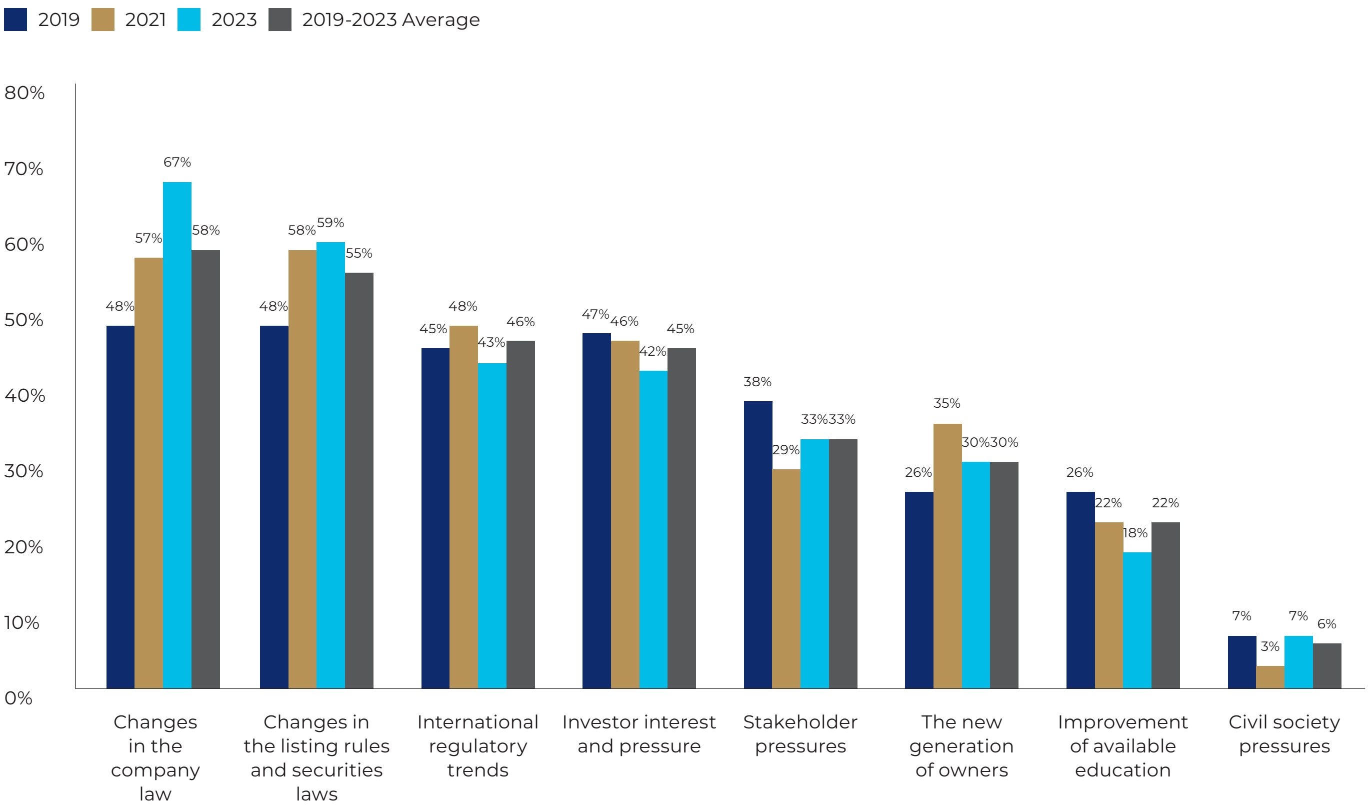


There are, however, areas of clear progress. Some 77% of respondents said there is better awareness of board roles and responsibilities and 71% see an increased presence of independent directors helping to raise performance.

The top influencing factors driving improvements were changes in company law (listed by 67%), new listing rules and securities law (cited by 59%), international regulatory trends (mentioned by 43%), and investor interest and pressure (selected by 42%).

What are the factors that have most positively impacted board effectiveness in the region? (please select top 3) 2019-2023

Figure 15

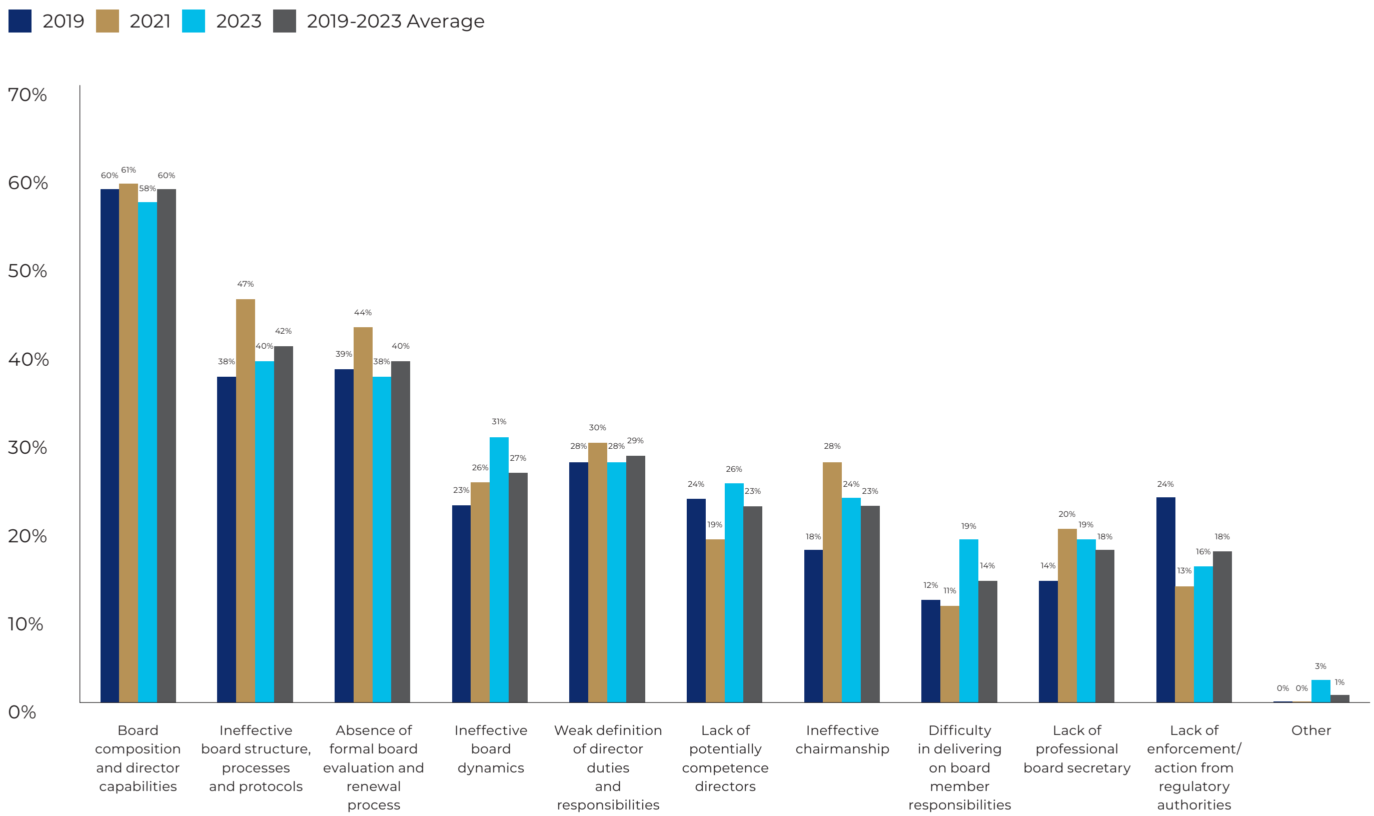


The top barriers to improving board effectiveness in the GCC include: board composition and director capabilities; ineffective board structure, processes and protocols; absence of formal board evaluation and renewal processes; and ineffective board dynamics.

Board effectiveness: What’s helping and remaining barriers Continued

What are the top barriers to improving board effectiveness in the GCC? (please select top 3) 2019-2023

Figure 16



The role of the chair

Most of the directors we interviewed underlined the importance of the chair to overall board effectiveness. One director summed it up as follows: “The chair needs to be like a football coach – get everyone involved, bring people together, coach people — or like a maestro who leads an orchestra.”

Nearly two-thirds of respondents (65%) said the role of CEO and chairperson are held by two different individuals — mirroring global best practice of separating these roles and creating clear delineation between the board and the C-suite. Our discussions with board members also highlighted the importance of an effective relationship between the chair and the CEO, including being aligned on the board agenda, maintaining clarity on the role of the board versus the role of the CEO and executive team, and keeping an open and transparent line of communication between the chair and the CEO.

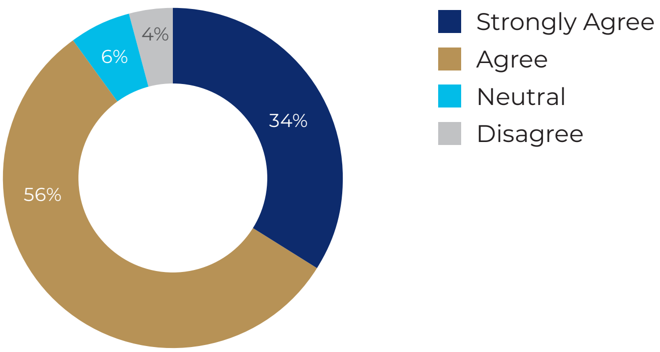
Board effectiveness: What’s helping and remaining barriers Continued

Processes and culture

More than half of respondents (56%) agreed — and 34% strongly agreed — that board meetings follow a clear agenda and structure, which helps the board in ensuring sufficient time is allotted to key topics to be covered in the meeting.

Board meetings follow a clear agenda and structure which helps the board in ensuring sufficient time is allotted to key topics to be covered in the meeting.

Figure 17

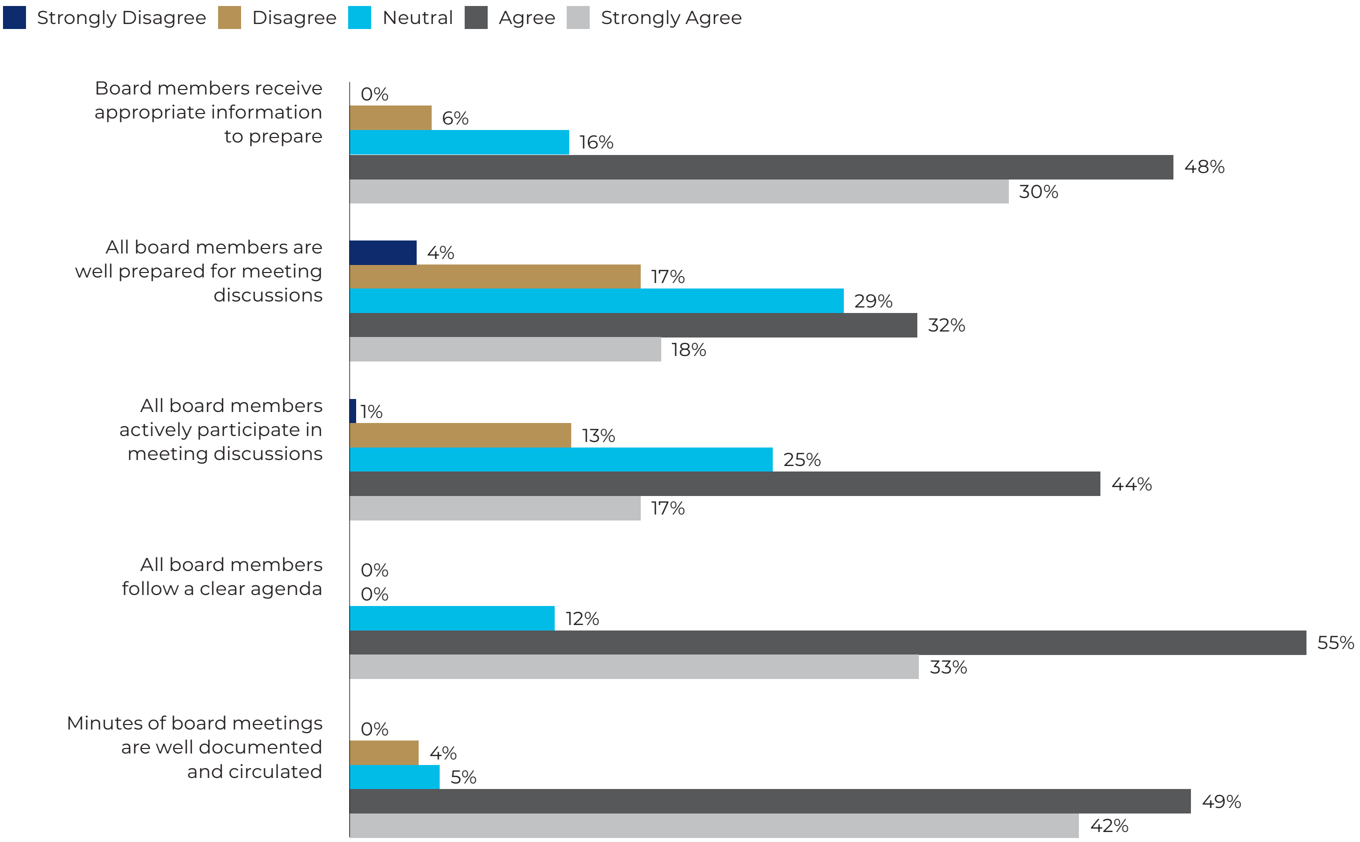


However, almost a third (31%) of respondents said that ineffective board dynamics are one of the top barriers to improving board effectiveness in the GCC, while 40% cited ineffective board structure, processes and protocols.

The survey uncovered a wide range of experiences when it comes to preparing for board meetings and capturing discussions. Less than half (48%) agreed that minutes of board meetings are well documented and circulated, 55% felt all board meetings follow a clear agenda, and 48% said that board members receive appropriate information to prepare, indicating clear areas for further improvement in preparing for board meetings.

How would you rate board effectiveness across the following five elements of meeting dynamics?

Figure 18



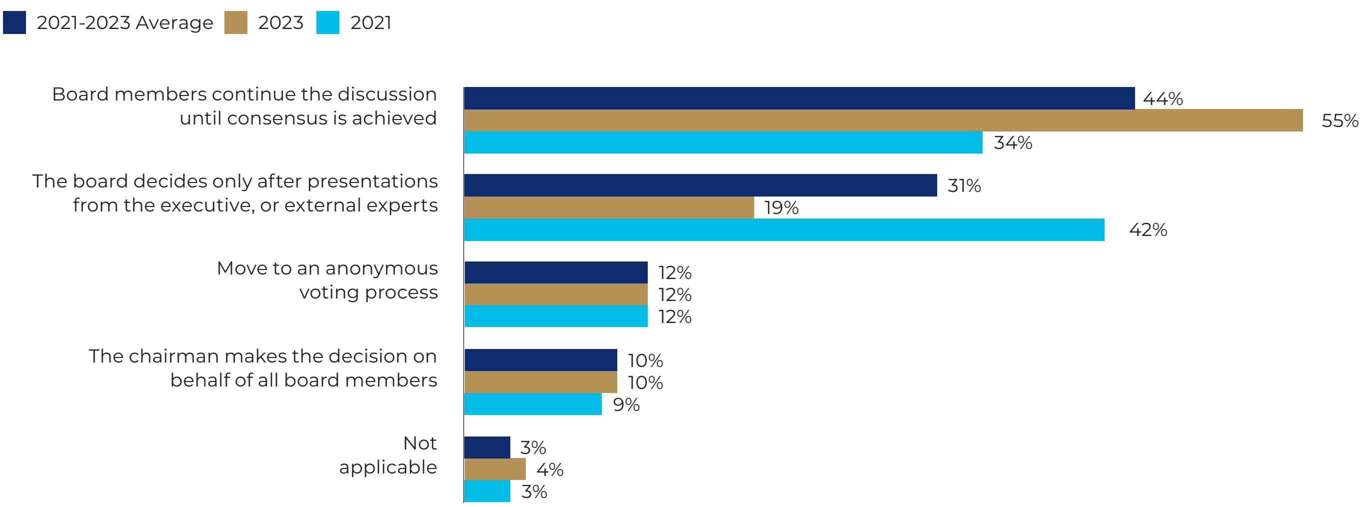
Board effectiveness: What's helping and remaining barriers Continued

Making decisions

Decision-making appears to be improving in the GCC, with 55% of respondents saying that most decisions at board meetings are taken by continuing discussions among board members until consensus is achieved. This is a significant jump of 21 percentage points versus the previous reporting period in 2021. Fewer respondents said they decide only after presentations from the executive, or external experts.

Which of the following best describes how decisions are usually made in board meetings? If it varies from board to board, choose your main board and select one

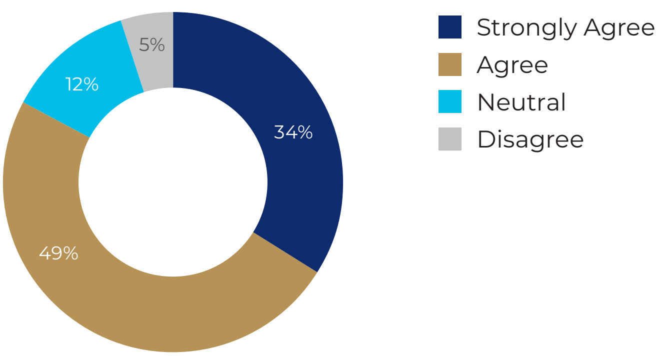
Figure 19



Meetings between the board and senior management are working well too; 34% strongly agreed and 49% agreed that these meetings provide a forum for open and honest discussion. Some 69% said they are either extremely satisfied or satisfied with the quality and timeliness of information provided to the board by management.

Meetings between the board and senior management provide a forum for open and honest discussion.

Figure 20

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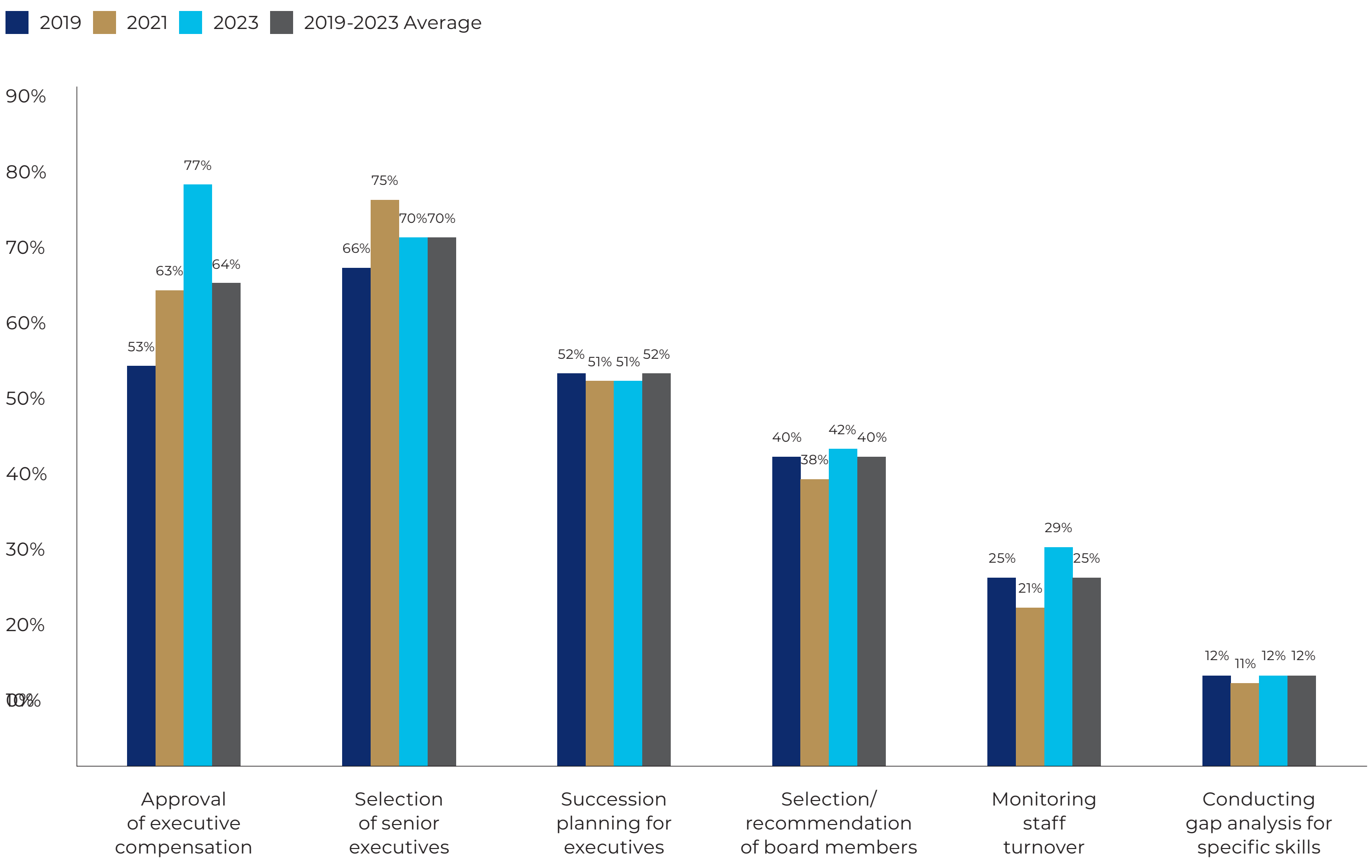
Board effectiveness: What's helping and remaining barriers Continued

Overseeing talent

Board attention on C-suite positions is established, with 70% of respondents saying the board is actively involved in the selection of senior executives within the organisation. Three-quarters (76%) of respondents also indicated they are actively involved in approving executive compensation, while more than half said they are involved in succession planning for executives.

The board is actively involved in the following areas of talent management in the organisation (select all that apply) 2019-2023

Figure 21



However, as the competition for talent in key company roles continues to heat up across the region, boards are increasingly turning their attention to talent as a material risk. There was a big jump in the number of board members agreeing that competition for talent is one of the top three factors that require board attention when overseeing strategy — 31% this year, up 10 percentage points.

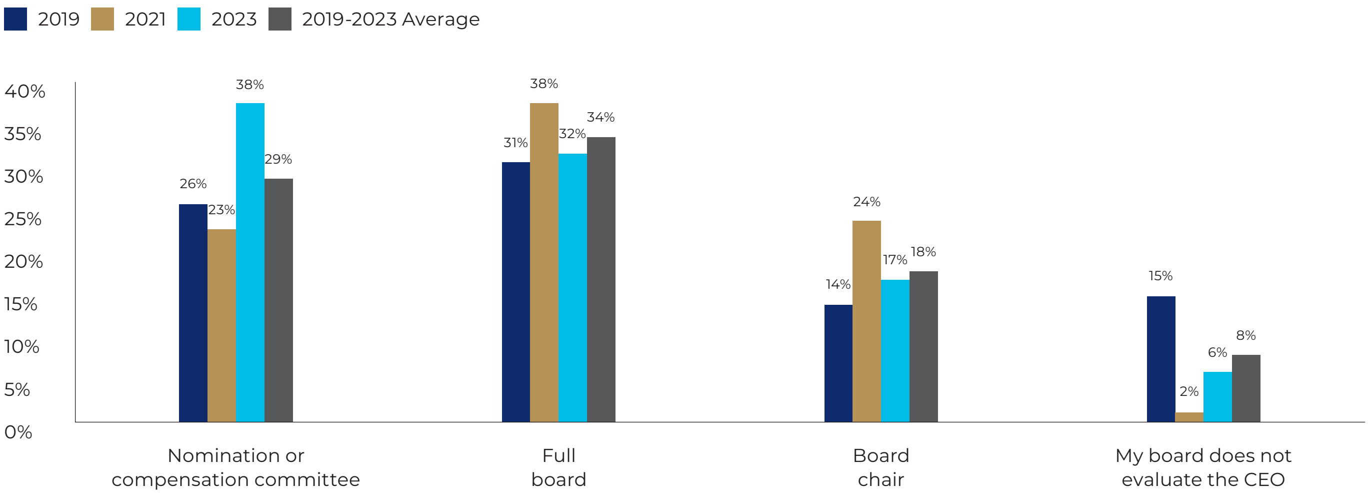
Boards are also organising themselves to better address the talent issue. Some 31% of respondents said there is a board member with substantial experience in talent management on their board — a sizeable increase of 15 percentage points over the previous report.

CEO evaluation and succession planning

Board evaluation of the CEO is becoming more commonplace in the Gulf. Only 6% of respondents said their board does not evaluate the CEO. Some 38% indicated that the nomination or compensation committee had primary responsibility for CEO evaluation, while 32% said the primary responsibility sat with the full board.

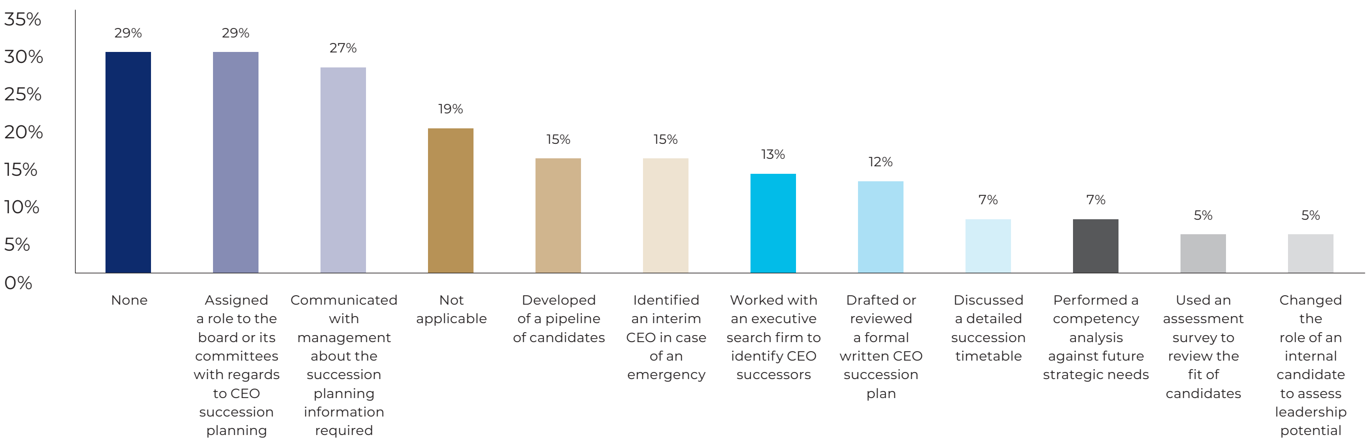
Which group or individual has the primary responsibility for the CEO evaluation? 2019-2023

Figure 22



Which of the following practices related to CEO succession has your board performed over the past 12 months? (select all that apply)

Figure 23



The role of board evaluations

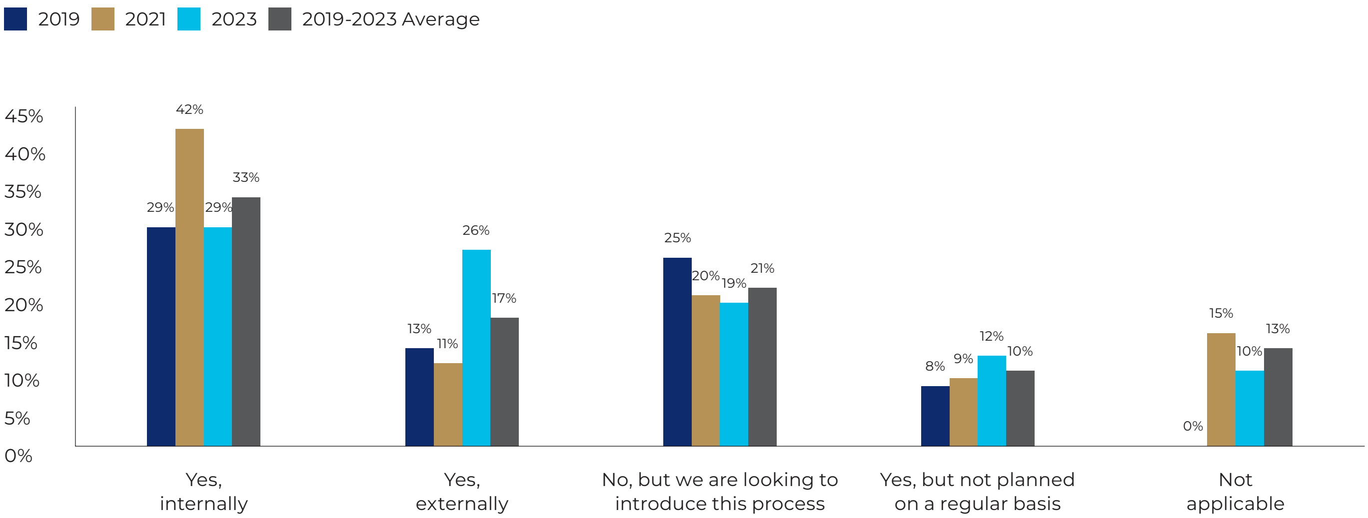
Regular evaluation, including independent board effectiveness reviews, is critical to improving how boards operate, and what they bring to their organisations. Best practice indicates that independent reviews should be carried out every three years, with internal reviews annually in between to maintain a continual focus on performance.[3]

An effective board review should focus on all dimensions of board effectiveness, including composition, board structure and processes, director duties, roles, and responsibilities, board dynamics, board evaluation and renewal, corporate governance and business ethics and corporate culture. A holistic approach to board evaluations includes input from multiple sources, such as director surveys and interviews, board documentation reviews, benchmarking against relevant peer groups, and direct observation of board meetings to review dynamics around the boardroom table. The outcome of a board evaluation exercise should clearly highlight the board's strengths and areas of development, along with clear recommendations for improving board effectiveness.

Only 26% of respondents said that they evaluate the board's performance and effectiveness using external channels, while 29% said the evaluation is done internally. Of the boards that do evaluate performance, it is typically an internal board decision to do so, driven by the desire to align with global best practice.

Do you evaluate the board's performance and effectiveness? 2019-2023

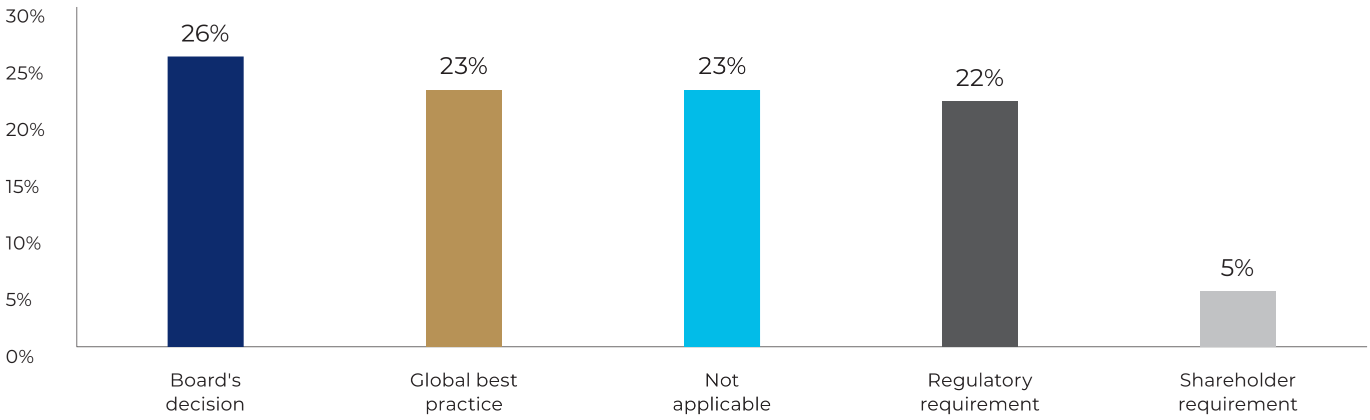
Figure 24



3 https://www.heidrick.com/en/insights/boards-governance/a_board_review_process_that_accelerates_competitiveness

Why has your board decided to have a board evaluation?

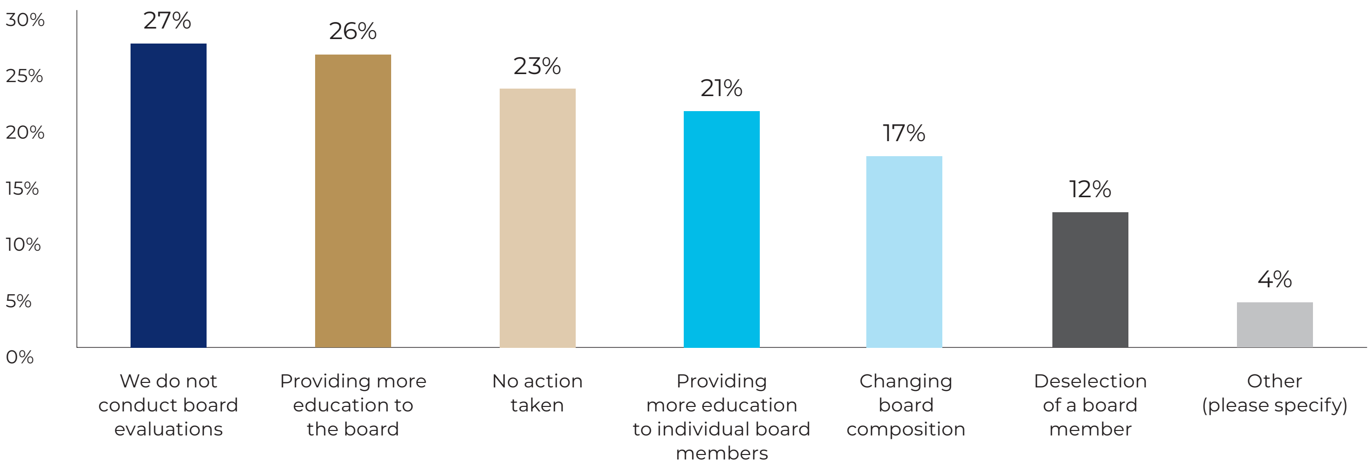
Figure 25



Even when evaluations are carried out, boards are not consistently acting on the recommendations for improvement — nearly a quarter (23%) of respondents stated that no follow-up action was taken. Some 26% said the board was receiving more professional development as a whole, while 21% said professional development was being targeted at individual board members. Some boards are taking more drastic actions: 17% reported changing board composition, and 12% had deselected a board member.

What follow up actions were taken, if any were taken as a result of the board evaluation conducted? (select all that apply)

Figure 26



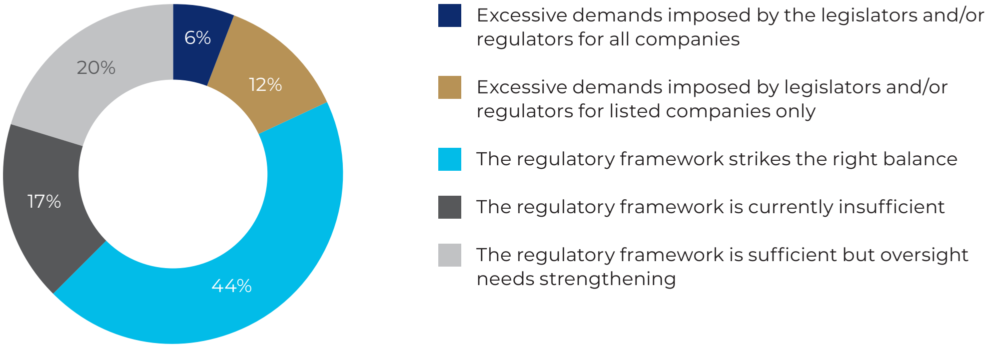
Regulation drives greater professionalism and transparency

Perceptions on what makes an effective board are shifting in response to new regulations aimed at increasing the transparency of governance practices in the region. There is growing recognition of the important role good governance can play both in attracting foreign investment and in driving productivity and financial performance.

There are signs that boards are becoming more comfortable with regulatory demands and expectations regarding board composition, disclosure, and transparency. Nearly half (44%) of the board members we surveyed believed the regulatory framework in their country strikes the right balance — a considerable jump from the 27% who agreed with the statement two years ago. And 52% felt that local rules and regulations on corporate governance have kept pace with global regulatory changes.

How do you rate the regulatory requirements in your country as far as corporate governance is concerned?

Figure 27



Previously, there was some concern that oversight of corporate governance needed bolstering, but these worries appear to be abating too. Only a fifth of respondents said the regulatory framework is sufficient but oversight needs strengthening — a 10% decline from the last reporting cycle.

Looking ahead: Responding to disruption and opportunity

GCC organisations, like those worldwide, are bracing themselves for a period of continued disruption. Asked which trends are likely to have the greatest impact on their organisations over the next three years, 69% of respondents cited significant industry changes, followed by global economic instability (61%), and increased regulatory burden (58%). Changing stakeholder demands saw the biggest jump versus the 2021 survey, selected by 53% of respondents, versus 36% previously.

These external pressures are filtering through to the types of skills board members will need to steer their companies through potentially challenging times ahead. Nearly half (45%) of board members said they would like to see more strategic thinking expertise on their board, while 37% cited corporate governance and compliance expertise, and 29% said sustainability expertise.

Similarly, the top three skills board members believe they will need to cope with changing times are: shaping strategy (60%), resilience (49%), and the ability to disrupt and challenge the status quo (43%).

While no board can predict the future with any certainty, the feeling from board member interviews is that boards should continue to expect the unexpected and be ready to respond to threats — and grasp the opportunities that change inevitably gives rise to.

Conclusion

Boards in the GCC are undergoing a period of intense professionalisation, adopting and adapting global best practice to work for local conditions and cultures, and meeting new regulatory and governance requirements and rising stakeholder expectations.

There is a sense that many boards and their members are leaning into this period of transformation with greater enthusiasm than may have been the case previously. Boards are changing because the operating environment is changing— and boards must be ready to guide their companies through complexity, disruption, and uncertainty like never before.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